REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED
31 MARCH 2004

(URBAN LOCAL BODIES)

GOVERNMENT OF TAMIL NADU

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Report of the Comptroller and Auditor General of India

for the year ended 31 March 2004

7463

(Urban Local Bodies)

Government of Tamil Nadu

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PREFACE

This Report has been prepared for submission to the Governor under Article 151 of the Constitution.

2. This Report sets out the results of audit under various sections of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971, in respect of financial assistance given to urban local bodies.

3. Matters arising from the Finance and Appropriation Accounts for the year 2003-04, together with other points arising out of audit of transactions of the Government of Tamil Nadu are included in a separate volume of the Report (Civil) of 2003-04.

4. The Report containing the observations arising out of audit of Statutory Corporations, Boards and Government Companies and the Report containing such observations on Revenue Receipts are presented separately.

5. The cases mentioned in this Report are among those which came to notice in the course of test-check of accounts during the year 2003-04, as well as those which had come to notice in earlier years, but could not be dealt with in previous Reports on Government of Tamil Nadu. Matters relating to the period subsequent to March 2004 have also been included wherever considered necessary.

OVERVIEW

OVERVIEW

This Report, dealing with the results of audit of accounts of urban local bodies contains one Audit Review and [illegible] Audit Paragraphs. As per the existing arrangement, copies of the dra[illegible]it Paragraphs and draft Audit Review are sent to the concerned Secretar[illegible] the State Government by the Principal Accountant General (Civil Audit), demi-officially with a request to furnish replies within six weeks. The Secretary is also reminded demi-officially by the Principal Accountant General for replies. However, despite such efforts, no response was received in respect of the review and five paragraphs from the concerned Secretary to the State Government. A synopsis of important audit findings is presented in this overview.

1 General

There were six corporations, 102 municipalities and 611 town panchayats in Tamil Nadu as on 31 March 2004. The urban population of the State is 2.72 crore comprising a share of 44 *per cent* of total State population. While the growth rate of the total population was 11 *per cent* during 1991-2001, that for the urban population was 43 *per cent.*

Property tax was the most important source of Tax revenue of urban local bodies. Grants and loans were released by Government of India and State Government for various schemes.

During 2003-04, the 'Own Revenue' of all the urban local bodies amounted to Rs 1220.20 crore (Tax revenue: Rs 726.99 crore and Non-tax revenue: Rs 493.21 crore). The percentage of revenues raised by the urban local bodies to their total receipts increased from 42.3 in 2002-03 to 45.5 in 2003-04. While the own tax revenue of the urban local bodies grew by 22.6 *per cent* from Rs 592.77 crore in 2002-03 to Rs 726.99 crore in 2003-04, the Non-tax revenue increased by only 6.3 *per cent* from Rs 464.08 crore to Rs 493.21 crore.

While the percentage of collection of Property tax by Corporation of Chennai against the demands raised during 2003-04 was 48.8 only, the corresponding percentages in other corporations and municipalities were 52.2 and 59.1 respectively.

The assigned revenue of urban local bodies through the proceeds of Entertainment Tax and Surcharge on stamp duty declined by eight and one *per cent* respectively during 2003-04, as compared to their proceeds for 2002-03.

The capital grants released to urban local bodies declined from Rs 404.59 crore in 2002-03 to Rs 326.12 crore in 2003-04. However, the loans received by them increased from Rs 94.99 crore in 2002-03 to Rs 231.91 crore in 2003-04.

The total expenditure incurred by the urban local bodies increased by 19 *per cent* from Rs 2182.90 crore in 2002-03 to Rs 2599.51 crore in 2003-04. This was mainly due to growth of revenue expenditure by 23 *per cent* from

Rs 1463.42 crore to Rs 1801.40 crore; the capital expenditure increased by 11 *per cent* only from Rs 719.48 crore to Rs 798.11 crore during the year.

Against the demand for user charges aggregating to Rs 111.43 crore raised by the corporations (except Corporation of Chennai) and municipalities during 2003-04, Rs 70.49 crore (63 *per cent*) only [illegible] collected.

The Director of Local Fund Audit is the statutory Auditor for all the urban local bodies. As of November 2004, the certification of annual accounts of 2002-03 pending with him comprised (a) 123 out of 611 town panchayats, (b) 76 out of 102 municipalities and (c) all the six corporations.

Despite Committee on Public Accounts' instructions for furnishing prompt reply to their pending recommendations arising from the audit paragraphs in the Reports of the Comptroller and Auditor General of India, 133 recommendations (9 Reports) relating to 1985-86 to 1996-97 of Municipal Administration and Water Supply Department were pending final settlement as of August 2004. One hundred and thirty four Inspection Reports (issued up to September 2003) of Principal Accountant General (Civil Audit) relating to urban local bodies containing 1283 paragraphs from 1989-90 to 2003-04 were pending settlement as of March 2004 for want of replies.

(Paragraphs 1.1.1 to 1.12.2)

2 *Review on levy, demand and collection of Property tax by three municipal corporations in Tamil Nadu*

A review on the levy, demand and collection of Property tax in Coimbatore, Madurai and Tiruchirappalli Corporations revealed the following:

- The three municipal corporations have not taken effective steps to collect the Property tax due. Failure of these corporations to improve the collection of the tax in arrears led to increased borrowings by them with consequent additional payment of interest aggregating to Rs 9.87 crore.
- The master list for Property tax was not maintained in all the three corporations.
- Levy of tax below the minimum rate prescribed in the Act by Coimbatore Corporation resulted in loss of revenue of Rs 23.80 crore for the period 1999-2004.

(Paragraphs 2.1.1 to 2.1.32)

3 *Losses detected in Audit*

(i) Failure on the part of Corporation of Chennai to get the bus stand at Broadway notified by Regional Transport Authority under Tamil Nadu Motor Vehicles Rules, 1989 resulted in loss of revenue of Rs 90.45 lakh to the corporation during the period 1997-2004.

(Paragraph 3.1.1)

(ii) Construction of excessive shops in a commercial complex by Mettupalayam Municipality resulted in most of them lying vacant causing loss of revenue of Rs 3.72 lakh per annum from 1999-2000 towards rent. The loan

raised by the municipality for this unviable project resulted in avoidable interest liability of Rs 32.67 lakh.

(Paragraph 3.1.2)

4 Unfruitful expenditure

(i) Expenditure of Rs 86.77 lakh by four municipalities on purchase of machineries and setting up of compost yard was largely unfruitful due to (a) absence of demand for compost (Kancheepuram), (b) non-identification of site (Tambaram) (c) failure of siever installed (Thiruvannamalai) and (d) production of small quantity of compost (Vellore).

(Paragraph 3.2.1)

(ii) Construction of a bus stand by Sankarankoil Municipality (cost Rs 45.47 lakh) at an inconvenient location resulted in non-accrual of anticipated revenue of Rs 1.27 lakh per annum for the past eight years.

(Paragraph 3.2.2)

(iii) Due to injudicious selection of sites by Corporation of Chennai, Rs 33.87 lakh spent on construction of two community centres remained unproductive.

(Paragraph 3.2.3)

5 Avoidable expenditure

(i) Failure of the Karur Municipality to analyse the viability of the shopping complex before availing loan from Tamil Nadu Urban Infrastructure Financial Services Limited, Chennai resulted in avoidable payment of interest of Rs 62.80 lakh.

(Paragraph 3.3.1)

(ii) The Tiruchirappalli Corporation has to take action to recover excess centage charges of Rs 33.24 lakh paid by it to Tamil Nadu Water Supply and Drainage Board for preparation of plan and sanction of estimates as this had been charged twice.

(Paragraph 3.3.2)

6 Idle investment

(i) Failure to assess the viability of construction of a daily market by Vridhachalam Municipality resulted in idle investment of Rs 27 lakh and payment of interest of Rs 17 lakh up to November 2004 on the loan taken for the purpose.

(Paragraph 3.4.1)

(ii) Two numbers of prime movers and six hydraulic trailers procured at a cost of Rs 33.22 lakh by Corporation of Chennai could not be put to use as the trailers went out of order immediately on putting them to use. No legal action could be taken against the supplier due to defective agreement. The corporation paid motor vehicle tax of Rs 1.17 lakh for the period from January 1997 to March 2001, though the prime movers were not in use.

(Paragraph 3.4.2)

7 ***Others***

(i) As of March 2004, Rs 104.41 crore collected by local bodies towards Library cess was not remitted to the respective District Library Officers. Failure to levy Library cess at the enhanced rates notified by Government by Corporation of Chennai resulted in short collection of Rs 47.72 crore for the period 1992-2004.

(Paragraph 3.5.1)

(ii) Expenditure of Rs 30.92 lakh on regular maintenance works of six roads was met from Calamity Relief Fund by Corporation of Chennai in 2002-03 in violation of guidelines.

(Paragraph 3.5.2)

(iii) Collection of tax for advertisement in buses by Corporation of Chennai at a rate lower than that approved by the Government resulted in short collection of Rs 23.76 lakh during January 1998 to July 2003.

(Paragraph 3.5.3)

(iv) Failure by Tambaram Municipality to work out and claim interest due during 1985-2003 on balance of Provident Fund of its employees resulted in denial of benefit of Rs 20.32 lakh to them.

(Paragraph 3.5.4)

(v) Due to lack of pursuance by Karur Municipality, 76 plots (cost: Rs 20.08 lakh in 1990) out of 303 plots developed in 1990 remained unsold and arrears of Rs 15.76 lakh accumulated in collection towards cost of plots sold through instalments.

(Paragraph 3.5.5)

(vi) Delay on the part of Corporation of Chennai to raise demand for track rent resulted in non-collection of Rs 14.27 lakh from Bharat Sanchar Nigam Limited for laying optic fibre cable.

(Paragraph 3.5.6)

CHAPTER I

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

CHAPTER I

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

1.1 Introduction

1.1.1 There were six municipal corporations, 102 municipalities and 611 town panchayats (TPs) in Tamil Nadu as on 31 March 2004. The urban population of the State is 2.72 crore with a share of 44 *per cent* of total State population (6.21 crore). While the decadal growth rate of the total population was 11 *per cent* during 1991-2001, that for the urban population was 43 *per cent.*

1.1.2 The six corporations in Tamil Nadu are governed under separate acts as shown under:

Name of the Corporation	Governing Act
Corporation of Chennai	Chennai City Municipal Corporation Act, 1919
Madurai Corporation	Madurai City Municipal Corporation Act, 1971
Coimbatore Corporation	Coimbatore City Municipal Corporation Act, 1981
Tiruchirappalli Corporation	Tiruchirappalli City Municipal Corporation Act, 1994
Tirunelveli Corporation	Tirunelveli City Municipal Corporation Act, 1994
Salem Corporation	Salem City Municipal Corporation Act, 1994

1.1.3 The municipalities and TPs are classified into different grades based on the annual income as follows:

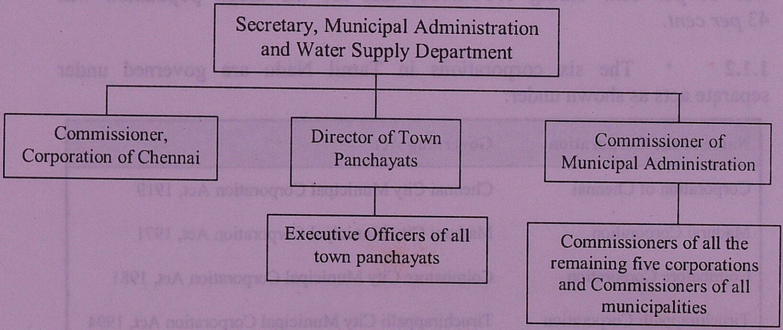
Grade	Municipalities		Town Panchayats	
	Annual income	Number	Annual income	Number
Special Grade	Above Rs five crore	13	Above Rs 20 lakh	28
Selection Grade	Rs two crore and above but below Rs five crore	28	Rs 16 lakh and above but below Rs 20 lakh	278
First grade	Rs one crore and above but below Rs two crore	36	Rs eight lakh and above but below Rs 16 lakh	223
Second Grade	Below Rs one crore	25	Rs four lakh and above but below Rs eight lakh	82
Total		102		611

1.1.4 Of the 611 TPs, 568 TPs have a population of less than 30,000 and the remaining 43 TPs have population of more than 30,000. With a view

to enable TPs to access central funding for Rural Development Programmes, Government reclassified (June 2004) 566 TPs as Village Panchayats (VPs) on the basis of their population and revenue generated. As these newly created VPs were presumed to be "Census Towns", the reclassification did not alter the urban/rural classification of the States' population. The nomenclature of the remaining 45 TPs was changed to "Third Grade Municipalities" with effect from June 2004.

1.2 Administrative arrangements

1.2.1 The overall administration of urban local bodies (ULBs) vests with the Secretary to Government, Municipal Administration and Water Supply (MAWS) Department at Government level. An Organisational Chart on the administration of ULBs is given below:



The Mayor is the elected representative of the Corporation and one Chairperson is elected for each Municipality and Town Panchayat.

1.3 Accounting arrangements

1.3.1 Government of Tamil Nadu introduced accrual-based system of accounting in all corporations and municipalities with effect from 2000-01.

1.3.2 The following three accounts are maintained under the accrual-based system of accounting:

(i) Revenue Fund and Capital Fund

(ii) Water Supply and Drainage Fund and

(iii) Elementary Education Fund

The cash balance of each of the above Fund is maintained in a separate bank account.

1.4 Audit arrangements

1.4.1 Director of Local Fund Audit (DLFA) is the Statutory Auditor for ULBs and fifty *per cent* of the actual cost of audit of DLFA is paid by the ULBs out of the Municipal fund. The corporations and municipalities were yet to pay Rs 4.34 crore towards audit fees as of October 2004. Year-wise details are given in the Appendix I.

The Principal Accountant General (Civil Audit) (a) audits the ULBs under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and (b) provides technical guidance to DLFA on a continuing basis regarding audit of accounts of the ULBs.

1.5 Financial and functional devolution

Financial devolution

1.5.1 The powers for issue of administrative sanction and technical sanction at various levels are indicated below:

Nature of sanction	Financial limit	Sanctioning authority
Administrative sanction	Up to Rs ten lakh	The concerned Council
	Rs ten lakh to Rs one crore	The concerned Directorate
	Above Rs one crore	Government
Technical sanction	Up to Rs 30 lakh	Municipal Engineer or Engineer in-charge in the rank of Executive Engineer
	Over and above Rs 30 lakh	Superintending Engineer

Devolution of functions

1.5.2 Out of the 18 functions to be devolved to the ULBs only 12 functions have been transferred. The transfer of the remaining six is under the consideration of the State Government (Appendix II).

1.6 Source of revenue

1.6.1 Own resources constitute tax and non-tax revenues realised by ULBs. Property tax is the most important source of tax revenue. Other resources comprise (a) funds released by the State Government based on the recommendation of State Finance Commission (SFC) and (b) loans released by it for implementation of various schemes relating to urban development, water supply, roads, etc. Government of India also releases grants based on Central Finance Commission recommendations and for implementation of specific schemes including poverty alleviation programmes.

1.7 Requirement of funds

1.7.1 Urbanisation is generally accompanied by a widening gap between demand and supply of essential infrastructure services like water supply, sanitation, solid waste management, transportation and development of housing, etc. This results from increasing population pressure on urban centres, most of which are financially and organisationally ill-equipped to respond to infrastructural needs.

The First State Finance Commission which was set up for the period 1997-2002 following the passage of 73rd and 74th Amendments to the Constitution of India, assessed the requirements for various urban services based on the norms and population forecast for 2002 and computed the service gaps on the basis of the then existing service levels.

Projected revenues

The Second State Finance Commission (SSFC) constituted in December 1999, projected the growth of tax and non-tax base for the ULBs for the award period 2002-07. The projections were based on the current taxes and their expected buoyancy as detailed in Appendix III.

Projected capital expenditure

SSFC assessed the total requirement of funds for covering the deficiencies in core sectors for the years 2002-07 at Rs 8125.08 crore (corporations: Rs 2475.11 crore, municipalities: Rs 2679.02 crore and TPs: Rs 2970.95 crore). However, based on the absorptive capacity of ULBs, (assessed in terms of their utilisation of funds over the past five years) the SSFC reduced the allocation of funds to them to Rs 2428 crore (corporations: Rs 975 crore, municipalities: Rs 650 crore and TPs: Rs 803 crore). Year-wise breakup details are given in Appendix IV.

Projected operation and maintenance expenditure

Based on the sustainable investment assessed for capital works, SSFC projected Rs 4250.24 crore towards operation and maintenance (O&M) expenditure for the ULBs for the period 2002-07 (corporations: Rs 1700 crore; municipalities: Rs 1413.25 crore and TPs: Rs 1136.99 crore). Year-wise details are given in Appendix V. SSFC had clarified in their Report that the above amounts towards O&M expenditure may be taken as the upper limit and can be pruned down.

1.8 Receipts and Expenditure in ULBs

1.8.1 The details of receipts and expenditure in ULBs during the last two years are given below:

(Rupees in crore)

	2002-03		2003-04*	
	Receipts	**Expenditure**	**Receipts**	**Expenditure**
Corporation of Chennai	566.11	477.70	762.53	761.63
Other Corporations	482.67	444.25	380.50	405.55
Municipalities	836.09	792.59	865.69	917.13
Town Panchayats	610.95	468.36	672.05	515.20
Total	**2495.82**	**2182.90**	**2680.77**	**2599.51**

* Provisional figures

The above table indicates that while the receipts and expenditure of Chennai Corporation, Municipalities and TPs have been buoyant, they declined for the five Corporations during 2003-04. This decline of Rs 102.17 crore in their combined receipts was primarily due to fall in grants to Madurai Corporation for specific urban development schemes from Rs 124.53 crore in 2002-03 to Rs 15.22 crore in 2003-04. The component-wise details of receipts and expenditure are given in the succeeding paragraphs.

Own Revenue Realised

1.8.2 Details of "Own Revenue" realised by ULBs during 2002-04 are given below:

(Rupees in crore)

Category of ULBs	2002-03			2003-04		
	Tax	Non-Tax	Total	Tax	Non-Tax	Total
Corporation of Chennai (1)	194.55	80.04	274.59	276.00	79.13	355.13
Other Corporations (5)	93.97	81.36	175.33	110.24	93.98	204.22
Municipalities (102)	220.16	195.64	415.80	248.25	202.36	450.61
Town Panchayats (611)	84.09	107.04	191.13	92.50	117.74	210.24
Total	**592.77**	**464.08**	**1056.85**	**726.99**	**493.21**	**1220.20**

The above table indicates that generally revenues raised by the ULBs were buoyant during 2003-04 and grew by 15.5 *per cent* in aggregate. The percentage of "Own Revenue" of the ULBs to total receipts grew from 42.3 in 2002-03 to 45.5 in 2003-04.

1.8.3 A comparison of "Own Revenue" realised by ULBs during the first two years of the award period *vis-à-vis* the projected revenue in respect of them by SSFC is given in a table below:

(Rupees in crore)

	2002-03		2003-04	
	Projected	**Actual**	**Projected**	**Actual**
Tax revenue	585.38	592.77	753.32	726.99 (3.5)
Non-tax revenue	327.24	464.08	366.62	493.21
Total own revenue	912.62	1056.85	1119.94	1220.20

(Figure in brackets indicate the percentage of shortfall)

Property Tax

1.8.4 The position of cumulative demand (including arrears), collection and balance of Property tax during the years 2002-03 and 2003-04 are as given below:

(Rupees in crore)

Year		Chennai Corporation	Corporations (except Chennai)	Municipalities	Town Panchayats
2002-03	Demand	384.97	194.28	293.12	82.95
	Collection	163.76 (42.5)	99.64 (51.3)	177.96 (60.7)	63.17 (76.2)
	Balance	221.21	94.64	115.16	19.78
2003-04	Demand	423.09	194.40	312.54	82.22
	Collection	206.61 (48.8)	101.41 (52.2)	184.81 (59.1)	63.10 (76.8)
	Balance	216.48	92.99	127.73	19.12

(Figures in brackets indicate the percentage of collection during the year)

The above table indicates that the performance of smaller ULBs was better than larger ULBs in terms of percentage of Property tax collected out of that demanded. Scrutiny by Audit indicated that the CMA had been holding frequent meetings with the Commissioners of all the corporations (except Chennai) and municipalities and Executive Officers of TPs to monitor and improve the collection of Property taxes by them. However, the absence of any tangible progress in this regard indicates that such meetings did not have the desired impact. The DTP attributed (December 2004) this to (a) tight financial position of many assessees caused by continuous drought and (b) vacancies in post of Bill Collectors.

1.8.5 Chapter II of this Report brings out several deficiencies with regard to levy, demand and collection of Property tax in three corporations.

Professional Tax

1.8.6 The position of demand (inclusive of arrears), collection and balance of professional tax during the last two years are as given below:

(Rupees in crore)

Year	Corporation of Chennai			Corporations (except Chennai)			Municipalities			Town Panchayats		
	Demand	Collection	Balance	Demand	Collection	Balance	Demand	Collection	Balance	Demand	Collection	Balance
2002-03	NA	29.38	NA	13.89	8.75 (63)	5.14	35.37	19.71 (56)	15.66	17.08	15.30 (90)	1.78
2003-04	NA	29.48	NA	13.94	8.97 (64)	4.97	37.13	20.67 (56)	16.46	16.85	15.67 (93)	1.18

NA: Not Available

(Figures in brackets indicate the percentage of collection during the year)

The above table indicates that the TPs had the best performance in terms of percentage of collection *vis-à-vis* demand raised. The Corporation of Chennai did not maintain any data on demand raised. Their reply to an Audit query for not maintaining it is awaited (January 2005).

1.8.7 The CMA stated (June 2004) that the Regional Directors of Municipal Administration (RDMA) had been instructed to inspect municipalities for collection of arrears of all taxes in person. The DTP stated (December 2004) that the Zonal Assistant Directors had been instructed to closely monitor the collection.

Non-tax revenue

1.8.8 Non-tax revenue includes building licence fees, market fees, survey fees, fishery rights, cart stand fees, parking fees, encroachment fees, fees for bays in bus stand, slaughter house fees, etc.

1.8.9 CMA intimated (June 2004) that Rs 54.82 crore of Non-tax revenue was pending collection by municipalities as of May 2004 and all the concerned RDMAs had been requested to inspect all the municipalities for the collection of all pending revenues. The DTP stated (December 2004) that Rs 23.28 crore was pending collection in TPs as of October 2004.

1.8.10 None of the corporations furnished details regarding current pendency of non-tax revenues (December 2004).

1.8.11 Mention was made in Paragraph 5.10 of the Report of the Comptroller and Auditor General of India (Civil) for the year ended 31 March 2002 regarding the non-identification of number of cable television connections in Chennai city resulting in short collection of cable television entertainment tax. The paragraph estimated that the tax to be collected for the 10.49 lakh cable TV connections in the city worked out to Rs 25.20 crore per annum. However, the actual collections during 2002-03 and 2003-04 were Rs 1.32 crore and Rs 0.40 crore respectively.

1.8.12 Paragraphs relating to non-collection and short-collection of tax/non-tax dues are reflected in Chapter III of this report.

Assigned Revenue

1.8.13 A portion of the proceeds arising from (a) Entertainment tax and (b) Stamp duty surcharge on transfer of property are assigned to ULBs. The amounts assigned during 2002-04 are tabulated below:

(Rupees in crore)

Category of ULBs	Entertainment Tax		Surcharge on stamp duty	
	2002-03	2003-04	2002-03	2003-04
Corporation of Chennai	13.37	12.00	118.02	130.00
Other Corporations	19.20	14.89	62.83	48.09
Municipalities	38.10	36.28	97.64	87.13
Town Panchayats	8.30	9.13	83.70	92.07
Total	**78.97**	**72.30**	**362.19**	**357.29**

The above table shows that the proceeds of Entertainment Tax to ULBs and Surcharge on stamp duty during 2003-04 declined by eight and one *per cent* respectively as compared to their proceeds for 2002-03.

The reasons for the fall in the assignment of Entertainment tax and the Surcharge on stamp duty during 2003-04 *vis-à-vis* 2002-03 are awaited from the CMA.

Grants and loans released by State/Central Government to Local Bodies

1.8.14 The assistance provided by way of Capital grants and loans to ULBs during 2002-04 was as follows:

(Rupees in crore)

Year	Nature of assistance	Grants and loans released by State and Central Governments				
		Corporation of Chennai	Other Corporations	Municipalities	Town Panchayats	Total
2002-03	Grants	0.40	144.86	122.41	136.92	404.59
	Loans	68.10	4.37	22.52	..	94.99
2003-04	Grants	10.40	47.76	117.34	150.62	326.12
	Loans	195.00	7.99	28.92	..	231.91

The above includes assistance by way of grants and loans given by Central and State Governments. These were received for implementation of schemes under Municipal Urban Development Fund, Integrated Development of Small and Medium Towns, Integrated Urban Development Programme, National River Conservation Programme, etc.

Repayment of Loans

1.8.15 In terms of Government orders (July 1998), all loans obtained from it by municipalities and corporations (except Chennai Corporation) for water supply schemes, road works, sewerage and sanitation schemes etc. outstanding as on 1 April 1998, were consolidated along with interest, into a single loan to be repaid in 20 years in half yearly instalments with interest at 13.5 *per cent* per annum. Between April 1998 and March 2004, Rs 207.13 crore was collected (Rs 154.90 crore by adjustment from SFC grants and

Rs 52.23 crore by actual repayment by the local bodies) by CMA. As of March 2004, Rs 719.78 crore were outstanding, of which Rs 302.68 crore (principal: Rs 87.19 crore and interest: Rs 215.49 crore) was overdue from 91 municipalities and 5 corporations. The CMA attributed (June 2004) the overdues to the weak financial position of the ULBs.

State Finance Commission Grants

1.8.16 The details of SFC grants released to ULBs and their reported utilisation during 2002-04 is tabulated below:

(Rupees in crore)

Year	SFC grants							
	Corporations		Municipalities		Town Panchayats		Total Grants	
	Released	Utilised	Released	Utilised	Released	Utilised	Released	Utilised
2002-03	191.07	189.82	207.09	208.26	190.90	190.90	589.06	588.98
2003-04	187.17	187.16	202.87	202.85	208.09	208.09	598.13	598.10

1.8.17 The devolution of funds was meant to cover the maintenance of assets and the salary and wages of employees of the local bodies. Test-check of records relating to the release of the devolution funds revealed that Government had deducted at source most of the funds to be released to cover (a) debt repayment and (b) other pending liabilities and dues like Library cess, consumption charges to Tamil Nadu Electricity Board, water and maintenance charges to Tamil Nadu Water Supply and Drainage Board, Chennai Metropolitan Water Supply and Sewerage Board etc., amounts to be transferred to Director of Local Fund Audit (DLFA) towards pension and health fund contribution and adjustment of due interest on certain loans obtained by ULBs.

The close match between funds released and that utilised, as reflected in the above table is attributable to the aforesaid deduction at source.

Expenditure incurred by ULBs

1.8.18 The breakup details of expenditure incurred by the ULBs during the two years 2002-04 are given below:

(Rupees in crore)

Year	Revenue Expenditure				Capital expenditure	Total expenditure
	Salaries	Pension	Repairs and Maintenance	Total		
2002-03	556.60	147.62	759.20	1463.42	719.48	2182.90
2003-04	596.99	155.84	1048.57	1801.40	798.11	2599.51

The above table shows that the growth of total expenditure by 19 *per cent* during 2003-04 was mainly due to 23 *per cent* growth in Revenue expenditure, the growth of Capital expenditure being only 11 *per cent*.

Revenue Expenditure

1.8.19 Revenue expenditure consists of expenditure on (a) salaries and pensions, (b) repairs and maintenance of street lights, water supply works and road works, (c) conservancy works and (d) administrative expenditure etc. The details of operation and maintenance expenditure (excluding salary and pension payment) incurred during 2002-03 and 2003-04 revealed that they were higher than the expenditure projected by SSFC for these years, as tabulated below:

(Rupees in crore)

Year	Operation and maintenance expenditure	
	Projected expenditure	Expenditure incurred
2002-03	677.38	759.20
2003-04	761.40	1048.57

Capital Expenditure

1.8.20 The sector-wise capital expenditure *vis-à-vis* the projected expenditure by SSFC during the last two years *viz* 2002-03 and 2003-04 is tabulated below:

(Rupees in crore)

Name of the core sector	2002-03		2003-04	
	Projected expenditure	Expenditure incurred	Projected expenditure	Expenditure incurred
Roads	106.34	231.34	106.84	294.35
Street lights	14.98	24.13	15.08	32.44
Water supply	139.48	93.61	141.98	103.28
Storm water drains	80.40	1.85	81.40	19.00
Solid waste management and Conservancy	22.02	22.20	22.12	26.69
Others	147.48	346.35	148.28	322.35
Total	**510.70**	**719.48**	**515.70**	**798.11**

Though the total capital expenditure incurred during these two years was higher than that projected, the expenditure incurred for water supply and construction of storm water drains was substantially less.

1.8.21 Government of India, Ministry of Environment and Forests notified (September 2000) the Municipal Solid Wastes (Management and Handling) Rules, 2000 to regulate the management and handling of such wastes. These rules stipulate, among others, that municipal authorities have to (a) set up waste processing and disposal facilities by December 2003, (b) improve existing landfill sites by December 2001 and (c) identify and make landfill sites for future use ready for operating by December 2002.

However, test-check of records in the office of CMA revealed that out of Rs 3.25 crore released to 48 municipalities towards purchase of lands for dumping yards/compost yards, only Rs 73.39 lakh was utilised. The position as of July 2004 regarding obtaining no-objection certificates (NOC) from Pollution Control Board and purchase of land as required under the existing rules is as tabulated below:

Year of release	Amount released (Rupees in crore)	No. of Municipalities that		Expenditure incurred (Rupees in lakh)
		Obtained NOC	Purchased land	
2001-02	1.75	5	14	68.79
2003-04	1.50	4	4	4.60
Total	**3.25**	**9**	**18**	**73.39**

Thus, it appears that though the deadline stipulated in the Rules has passed, little progress has been achieved. Government cited (March 2004) constraints of ULBs such as (a) shortage of staff strength, (b) fleet inadequacy, (c) lack of suitable compost sites, etc., in achieving the stipulated goal of disposal of entire solid wastes in towns in scientific manner.

1.8.22 Two paragraphs, one on non-functioning of compost yards in five municipalities and another on idle bulk refuse carrier system in Chennai Corporation are included in Chapter III of this Report.

1.9 User charges

1.9.1 Details of user charges (mainly water charges) collected during the last two years as reported by CMA and DTP are given below:

(Rupees in crore)

Urban Local Bodies	2002-03			2003-04		
	Demand	Collection	Balance	Demand	Collection	Balance
Corporations (other than Chennai Corporation)	32.20	22.09	10.11	42.95	28.99	13.96
Municipalities	53.06	34.70	18.36	68.48	41.50	26.98
Town Panchayats	21.99	21.99	-	NA	NA	NA

NA : Not made available by DTP

The above table shows that against the aggregate demand of Rs 111.43 crore raised by the corporations and municipalities, during 2003-04 only Rs 70.49 crore (63 *per cent*) was collected. Replies from CMA and DTP clarifying whether the figures for Demand include arrears are awaited (January 2005).

1.9.2 The CMA attributed the shortfall in collection of user charges to the drought conditions that prevailed in the State.

1.10 Central Finance Commission Grants

1.10.1 For Tamil Nadu, Eleventh Finance Commission (EFC) had allocated Rs 38.67 crore for ULBs for each of the five years (2000-05).

1.10.2 The details of grants released by EFC to ULBs each of which was fully utilised during the last two years are given below:

(Rupees in crore)

Year	EFC grants released to and utilised by			
	Corporations	**Municipalities**	**Town Panchayats**	**Total Grants**
2002-03	11.95	19.86	13.49	45.30
2003-04	11.95	13.11	13.49	38.55

Based on the recommendations of EFC, Government of India allocated grants for creation of database and maintenance of civic services in ULBs and released the same in two instalments every year during 2000-01 to 2003-04 with instructions to treat the grants for creation of database as the first charge. However, grants to the tune of Rs 47.48 lakh given for the creation of database for the period 2001-04 was withheld by State Government as the software for database was still to be finalised in consultation with Comptroller and Auditor General of India (CAG), as required by Government of India.

1.11 Audit of ULBs by DLFA

1.11.1 DLFA is the Statutory Auditor for all the three tiers of ULBs. The DLFA reported (December 2004) that all ULBs had compiled and submitted their annual accounts up to 2003-04.

1.11.2 While the audit of accounts of TPs has been completed up to 1999-2000, audit in respect of municipalities and corporations was completed up to 2000-01. Position of arrears in completion of audit of ULBs as of November 2004 and reasons therefor are given in Appendix VI.

1.11.3 The number of paragraphs included in the Inspection Reports (IRs) of DLFA that were pending settlement as of October 2004 aggregated to 2,98,559. Year-wise details are given in Appendix VII. As a result of such long pendency, serious irregularities pointed out in various paragraphs were lying unsettled. Despite formation of District High Power Committees, based on the recommendation of SSFC accepted by Government, the continued existence of huge number of audit objections indicate inadequate response from the local bodies in settling of them. Conducting of regular joint sittings in each district with the district officers of Local Fund Authority would help in settling the objections quickly.

1.12 Response to Audit

1.12.1 Despite the instructions of the Committee on Public Accounts (PAC) to Government Departments for furnishing prompt reply to pending recommendations, there were 133 recommendations (9 Reports) relating to 1985-86 to 1996-97 of MAWS Department pending final settlement as of August 2004 in Appendix VIII. Of these, 83 recommendations related to 1992-93 Audit Report. No reasons were made available for such huge pendency. Discussion of Audit Reports pertaining to the year 1996-97 and afterwards are still to be completed.

1.12.2 The position regarding settlement of objections raised during Local Audit against the ULBs is given below.

- One hundred and thirty four IRs (issued up to September 2003) containing 1283 paragraphs for the period from as early as 1989-90 were pending settlement as of March 2004 for want of replies. Year-wise details of IRs/Paragraphs pending settlement are given in Appendix IX. Of these 24 IRs with 171 paragraphs are pending for more than five years. As a result of such long pendency, serious irregularities were lying unsettled.

- Though Government had in April 1967 fixed a time limit of four weeks from the date of receipt of IRs for furnishing first replies by the Heads of Offices, even first replies were not furnished by eight municipalities as shown in Appendix X.

This indicated the lackadaisical approach of the departmental authorities and such inadequate response resulted in continued existence of the deficiencies and lapses pointed out, further eroding the accountability of the departmental officers.

CHAPTER II

PERFORMANCE REVIEW

CHAPTER II

PERFORMANCE REVIEW

This chapter contains one performance review on "Levy, demand and collection of Property tax by three municipal corporations in Tamil Nadu".

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

2.1 Levy, demand and collection of Property tax by three municipal corporations in Tamil Nadu

Highlights

- Municipal corporations of Coimbatore, Madurai and Tiruchirappalli have not taken effective steps to collect the Property tax due.

(Paragraph 2.1.10)

- The failure of the three corporations to improve the collections of the tax in arrears led to increased borrowings by them with consequent additional payment of interest aggregating Rs 9.87 crore.

(Paragraphs 2.1.11 to 2.1.13)

- The master list for Property tax was not maintained in all the three municipal corporations.

(Paragraphs 2.1.14 to 2.1.18)

- Levy of tax below the minimum rate prescribed in the Act by Coimbatore Corporation resulted in loss of revenue of Rs 23.80 crore for the period 1999-2004.

(Paragraph 2.1.20)

Introduction

2.1.1 There are six municipal corporations in Tamil Nadu under the overall control of Secretary, Municipal Administration and Water Supply Department. While Corporation of Chennai is under the direct control of

Government, the remaining Corporations (Coimbatore, Madurai, Salem, Tiruchirapalli and Tirunelveli) are under the purview of Commissioner of Municipal Administration (CMA).

2.1.2 Property tax constitutes about 33 *per cent* of the revenue to the corporations.

2.1.3 The taxable annual value is computed for each type of building such as residential, industrial shed, hospitals and marriage halls, office, restaurants and star hotels at different rates based on plinth area. Central Government buildings are assessed to service charges in lieu of Property tax and State Government buildings are assessed to Property tax at six *per cent* of estimated cost of land / building.

2.1.4 Revision of Property tax has to be done once in five years based on detailed guidelines issued by the Government and CMA. The last revision was made in October 1998. Government orders on the proposal of CMA for the revision of tax due from October 2003 are awaited.

Organisational set up

2.1.5 At the Government level, Secretary to Government, Municipal Administration and Water Supply Department is overall in-charge. The municipal authorities of the corporation are principally (a) Council, (b) six Standing Committees each dealing with six sectors[1] (c) Ward Committees and (d) Commissioner.

2.1.6 Organogram is given in the Appendix XI.

Audit coverage

2.1.7 Audit reviewed the levy, demand and collection of Property tax in three municipal corporations (Coimbatore, Tiruchirappalli and Madurai) during October/November 2003.

2.1.8 The findings of the review are discussed in the succeeding paragraphs.

Demand, Collection and Balance

2.1.9 Demand, collection and balance of Property tax in respect of the three corporations were as under:

[1] (i) Accounts, (ii) Education, (iii) Health, (iv) Taxation and Finance excluding Taxation appeals, (v) Town Planning and Improvement and (vi) Works.

(Rupees in crore)

Name of the Corporation	Year	Opening Balance	Demand	Collection	Closing Balance
Coimbatore	2000-01	8.17	30.37	33.71	4.83
	2001-02	4.83	32.98	30.60	7.21
	2002-03	7.21	32.79	33.44	6.56
	2003-04	6.56	36.04	37.56	5.04
Madurai	2000-01	27.19	15.52	24.11	18.60
	2001-02*	18.60	22.88	22.07	19.41
	2002-03*	19.41	24.27	25.89	17.79
	2003-04*	17.79	14.10	6.21	25.68
Tiruchirappalli	2000-01	22.58	16.36	12.19	26.75
	2001-02*	26.75	16.92	16.64	27.03
	2002-03*	27.03	15.65	15.74	26.94
	2003-04*	26.94	19.30	16.60	29.64

* Accounts not certified by Local Fund Audit

2.1.10 Except for fall in collection at Madurai during 2003-04 there was no significant change in the collection over the years. This indicates that the corporations have not been taking effective steps to tap the full potential of the Property tax.

Avoidable payment of interest

2.1.11 The inability of the corporations to improve the collection of the tax in arrears led to their having to resort to additional borrowings from various sources.

2.1.12 Details of loans taken by the three corporations during 1999-2004 and the additional interest paid till end of 2003-04 were as under:

(Rupees in crore)

Year	Coimbatore			Madurai			Tiruchirappalli		
	Property tax due	Borrowings	Interest paid	Property tax due	Borrowings	Interest paid	Property tax due	Borrowings	Interest paid
1999-2000	7.50	2.50	0.12	26.77	7.75	-	22.58	8.22	-
2000-2001	2.54	6.75	0.24	18.19	9.62	-	26.15	-	0.26
2001-2002	6.14	-	0.24	19.01	-	1.49	25.51	5.55	0.44
2002-2003	5.90	-	0.24	17.38	-	2.27	19.66	0.70	0.43
2003-2004	4.55	-	0.85	25.30	-	2.27	21.21	5.60	1.02
		9.25	**1.69**		**17.37**	**6.03**		**20.07**	**2.15**

Note: (i) Property tax due has been worked out after deducting the amount held under litigation from the arrears

(ii) Interest paid has been worked on the loans only to the extent of tax in arrears or amount borrowed whichever is less

2.1.13 Thus the failure of the corporations to collect the arrears of tax resulted in avoidable payment of interest of Rs 9.87 crore.

Non-preparation of master list and non-reconciliation of the households taxed with that of census

Corporations did not prepare master list of properties

2.1.14 Under the system for the levy of Property tax effective from October 1998 the assessees were expected to file returns indicating the details required for Property tax assessment/revision. With a view to ensure that returns were received in all cases, CMA directed (February 1998) all the commissioners of municipal corporations/municipalities to prepare master list of all the properties in their municipal jurisdiction after cross verifying the returns with: (i) Demand Register, (ii) Register of ration cards, (iii) Census records of households, (iv) House number lists maintained by them, (v) Electoral rolls, (vi) Building application /license registers, completion records of buildings and (vii) Correlation registers maintained in Town planning section and Revenue section. The field staff of Revenue branch in Coimbatore, Madurai and Tiruchirappalli Corporations did not carry out the above exercise. Due to this, it could not be ensured if all the properties in the municipal jurisdiction of these corporations have been assessed to Property tax.

2.1.15 Director of Local Fund Audit in his report for the year 2000-01 relating to West Zone of Coimbatore Corporation had pointed out the following lapses:

- Property tax being levied only on submission of returns by the assessee, which was often delayed.
- Non-assessment of taxes on 261 buildings immediately on their completion.
- Details of transfer of lands/buildings were often not obtained from Registration department leading to delay or omission of assessments.
- Lack of co-ordination between the Town Planning wing of the Coimbatore Corporation, which approves building plans, and its Revenue wing, which processes assessments to ensure that every completed building is brought under the tax net.

2.1.16 Assistant Commissioner (Revenue) Coimbatore intimated (October 2003) that action is being taken to ensure that all buildings are properly assessed to tax. Need for collection of primary data was also accepted.

2.1.17 Responding to Audit, Tiruchirappalli Corporation reported (October 2003) that no master list of properties were maintained and the returns furnished by building owners were taken as the basis for preparation of demands for levy of Property tax from 1 October 1998 and in some cases, the revenue assistants themselves had prepared the returns on inspection of

buildings. 192 buildings were not assessed to tax immediately on their completion for the assessment year 2002-03.

2.1.18 The Madurai Corporation did not respond to the Audit query regarding reasons for not preparing the master list. It, however, reported (September 2004) that assessments were made based on the returns filed by the assessees.

2.1.19 It was noticed in the three corporations test-checked that the database of properties and taxes assessed on them during various years had not been computerised.

Loss of revenue due to levy of Property tax below the minimum rate

Lower rates approved in May 1985 without amending the relevant provisions of the Act, resulted in loss of revenue of Rs 23.80 crore.

2.1.20 According to the Coimbatore City Municipal Corporation Act, Property tax is leviable at a percentage not less than 15.5 *per cent* and not more than 35 *per cent* of the annual value of buildings. The minimum rate of 15.5 *per cent* is leviable to the extended areas also from the date of their inclusion in the corporation area. However, in Coimbatore Corporation rates ranging from 10 to 12.5 *per cent* were charged in extended areas[2]. Government approved the lower rates in May 1985 without issuing any amendment to the relevant provisions of the Act. Consequently there was loss of revenue of Rs 23.80 crore for the period 1999-2004.

Incorrect inclusion of demands relating to buildings of educational institutions

The demands were continued to be raised on educational institutions and hostels exempted from Property tax.

2.1.21 It was observed that even though the buildings occupied by educational institutions including hostels were exempted from levy of Property tax with effect from 1 April 1994 as per Coimbatore City Municipal Corporation Act, the demands were continued to be raised on educational institutions and hostels by the corporation for each half year and included in the Demand Register. As on 31 March 2003, Property tax amounting to Rs 2.54 crore towards buildings exempted from levy of Property tax was shown in the Demand Register. This resulted in unnecessary inflation of figures under the head "Property tax –collectable demand".

Taxation Appellate Tribunal – pending cases

2.1.22 A Taxation Appellate Tribunal was set up in 1988 in Coimbatore and Tiruchirappalli Corporations for speedy disposal of outstanding appeals. However, in Coimbatore, 1443 cases involving under-assessment of Rs 6.96 crore were pending as of November 2004 and the pendency ranged from 1993 onwards resulting in delay/non-recovery of taxes.

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2 Extended areas means the adjoining areas of other local bodies (*viz* Municipalities, Town Panchayats) appended to existing corporation area.

2.1.23 The post of Chairman, Taxation Appellate Tribunal in Tiruchirappalli Corporation continues to be vacant from 21 June 2002 onwards. As a result 31 reference orders and 297 appeal cases were pending with the Tribunal as of 1 September 2003 resulting in delay/ non-collection of taxes. In addition, 217 cases involving a sum of Rs 6.22 crore towards levy of Property tax were pending with various civil courts as of November 2004.

2.1.24 To settle the taxation cases amicably through conciliatory process the Government suggested a system of Lok Adalat and accordingly District Legal Services Authority, Tiruchirappalli requested (November 2002) the Corporation to send a list of Property tax litigation cases likely to be settled through Lok Adalat. However, no further action was taken in the matter.

Arrears in collection of Property tax.

2.1.25 The arrears in collection of Property tax as of November 2004 in the three corporations due to litigation aggregated to Rs 17.22 crore as reflected in the table below:

(Rupees in crore)

Year	Coimbatore Corporation		Tiruchirappalli Corporation		Madurai Corporation	
	Number of cases pending	Amount	Number of cases pending	Amount	Number of cases pending	Amount
2000	601	2.45	159	3.90	267	2.44
2001	237	2.29	3	0.60	78	0.41
2002	197	1.07	18	0.92	58	0.40
2003	231	0.66	28	0.35	57	0.41
2004	177	0.49	9	0.45	32	0.38
Total	**1443**	**6.96**	**217**	**6.22**	**492**	**4.04**

2.1.26 According to Commissioner, Tiruchirappalli Corporation (November 2001) the large number of old litigations was due to the pendency in settlement of cases that arose after the revision of Property tax (as per Government guidelines) in 1987-88 and 1993-94. He added that the lawyers engaged by the Corporation had opined that the increased rate of tax together with the working sheets and reasons therefor should have been communicated to the owners and their acknowledgement obtained. As the corporation could not produce such evidence readily the cases could not be decided expeditiously. This indicates that had the legal requirement been examined in detail prior to the revision of Property tax, the consequential loss of revenue may have been avoided.

2.1.27 Incidentally, the relevant Acts governing the Property tax in Tiruchirappalli and Coimbatore Corporations do not have a provision for levying penalty on delay in payment. In Madurai Corporation, though provision of fine on delayed payment exists, it is generally not invoked.

Education tax – accumulated surplus

2.1.28 Education tax at 2.5 *per cent* of the annual value of the property is to be collected from the land / building owners as a part of Property tax and it should be transferred to the Elementary Education Fund. According to Government order issued in March 1999 the fund thus accumulated has to be utilised for development / maintenance of municipal school buildings by urban local bodies.

2.1.29 As of March 2004, Rs 8.69 crore was available in the Elementary Education Fund in Coimbatore, Tiruchirappalli and Madurai Corporations as shown below:

(Rupees in crore)

Name of the Corporation	Opening Balance as on 1 April 2003	Collection 2003-04	Expenditure 2003-04	Closing Balance as on 31 March 2004
Coimbatore	1.07	4.57	2.78	2.86
Tiruchirappalli	2.61	2.43	1.35	3.69
Madurai	0.26	3.44	1.56	2.14

2.1.30 During 2003-04, in Coimbatore City Corporation, out of the total expenditure of Rs 2.78 crore only Rs 92 lakh was spent on development and maintenance of school buildings while the balance of Rs 1.86 crore was unauthorisedly diverted for payment of pensionery benefits to teaching and non-teaching staff of the Corporation elementary schools. During the period from 1 December 1991 to 31 March 2004 a sum of Rs 23.37 crore was diverted from the fund towards payment of pensionery benefits. Government has not yet reimbursed this amount.

2.1.31 Similarly, in Madurai City Corporation, out of the total expenditure of Rs 1.56 crore in 2003-04 only Rupees seven lakh was spent on development and maintenance of school buildings while the balance of Rs 1.49 crore was unauthorisedly diverted for pensionery benefits to teaching staff of the Corporation. During the period 1990-2004, a sum of Rs 5.45 crore was diverted from the fund towards payment of pensionery benefit. Government has not yet reimbursed this amount.

Conclusion

2.1.32 The system adopted for levy, demand and collection of Property tax offers scope for improvement to ensure that all the existing and newly constructed buildings are assessed to tax at the appropriate rates. Besides, a large number of court cases were pending involving Property tax of Rs 17.22 crore in Tiruchirappalli, Coimbatore and Madurai Corporations as of 30 November 2004.

Recommendations

- Local bodies should expedite the compilation of master list for Property tax, compare them with census, electoral roll, ration cards etc., to ensure that all properties are assessed. Computerisation of data would greatly facilitate this task.

- Penalty may be levied for belated payment of tax and/or incentive scheme for prompt payment of Property tax may be introduced.

- Pending court cases must be effectively pursued.

The above points were referred to Government in March 2004, Government generally accepted the facts in respect of Tiruchirappalli Corporation (August 2004). Their reply in respect of Madurai and Coimbatore Corporations is awaited (January 2005).

CHAPTER III

AUDIT OF TRANSACTIONS

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AUDIT OF TRANSACTIONS

Audit of transactions in the Municipal Administration and Water Supply Department in the Secretariat, Directorate of Municipal Administration, Corporations of Chennai and Tiruchirappalli and selected municipalities brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

3.1 Losses detected in Audit

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

CORPORATION OF CHENNAI

3.1.1 Loss of Revenue

Bus stand fee was not collected from transport corporations for want of notification from Regional Transport Authority.

Tamil Nadu Motor Vehicles Rules (TNMVRs), 1989 require a Local authority to apply to the Regional Transport Authority (RTA) for construction of Public bus stands.

RTA's approval for the bus stand remains in force for a period of three years and is subject to further renewal for not more than three years at a time. For this purpose, the public bus stands are classified into four categories (A, B, C & D) depending on the number of buses that can be accommodated in the parking bays. Each class of bus stand has to be provided with prescribed amenities and maintained in the manner specified in the First schedule of TNMVRs. The fees leviable for the four classes of bus stand were Rs 4, 3, 2 and Rs 1.50 per day per bus respectively.

A bus stand of 'A' category at Broadway, Chennai with capacity to accommodate 82 buses at a time has been with the Corporation of Chennai (CC) for several years. The CC did not approach the RTA to declare the bus stand as a public stand. The Corporation incurred an expenditure of Rs 83.17 lakh towards maintenance of bus stand (Rs 40.30 lakh), provision of bus bay and passenger shelter (Rs 32.67 lakh) and provision of storm water drain (Rs 10.20 lakh) during the period 1996 to 2003. However, no fee had been

collected. In the meantime, the fee was enhanced to Rs 15 per day with effect from 11 March 2002 by the Government.

Thus, failure on the part of the Corporation to get the bus stand notified by the RTA resulted in loss of revenue of Rs 90.45 lakh for the period 1997-2004. The loss of revenue prior to 1997 remains to be assessed.

The matter was referred to Government in December 2003. In reply the Government in Municipal Administration and Water Supply Department stated (December 2004) that Secretary, Transport Department has been requested to instruct the concerned transport corporations to pay the bus stand fee.

METTUPALAYAM MUNICIPALITY

3.1.2 Loss of Revenue

Revenue loss due to non-letting of shops in a commercial complex in Mettupalayam Municipality.

Project Director, Tamil Nadu Urban Development Project forwarded a proposal to Government (November 1994) for the construction of a commercial complex-cum-restaurant at Market road in Mettupalayam, to be financed by loan from Municipal Urban Development Fund. Government accorded administrative sanction for the construction of the complex at a cost of Rs 24 lakh in February 1995.

The loan was disbursed in March 1995 subject to the condition that the work would be started within 60 days. The loan was repayable in 30 half-yearly instalment starting from 1 April 1996. As there was delay in evicting the occupants of the existing old shops in the area, demolition and consequent delay in handing over the full site for construction, the work commenced in March 1996, and was finally completed in March 1999. The Municipality commenced repayment of loan from April 1996 and paid Rs 11.62 lakh (Principal: Rs 1.82 lakh and Interest: Rs 9.80 lakh) by March 1999.

Out of 74 shops constructed in five blocks (A,B,C,D and E), only 34 had been let out as of September 2004. Despite conducting more than 30 auctions for letting out the remaining shops located in the interior region of the market, the response was poor reportedly due to small size of shops, non-provision of shutters to the shops in D and E blocks and higher rent/deposit for the shops. Even among the shops occupied, eight had subsequently been vacated due to high rent. The Commissioner, Mettupalayam Municipality stated (December 2003) that the project was originally proposed on Market road considering the commercial surroundings of the locality and to provide new shops for vegetable merchants occupying the old shops.

The following observations are made:

Though the commercial complex was planned as a profit earning project the demand projected was not assessed properly before undertaking the construction of the new complex. As there were only 30 shops in the old market area, demand for additional shops was *prima facie* excessive. Out of 74 shops, only 31 shops (average) could be leased out fetching an average revenue of Rs 2.77 lakh per annum. Construction of a complex with substantially more shops is indicative of defective planning which resulted in revenue loss of Rs 3.72 lakh per annum since 1999-2000 towards rent and also in non-receipt of Rs 9.54 lakh towards deposit. Besides the Municipality had repaid Rs 6.19 lakh towards principal and Rs 20.10 lakh towards interest (including penal interest of Rs 0.46 lakh) during April 1996 to October 2003, and has still to repay Rs 30.38 lakh towards principal (Rs 17.81 lakh) and interest (Rs 12.57 lakh).

Thus, the unviable project resulted in avoidable interest liability of Rs 32.67 lakh.

Government stated (September 2004) that action has been taken to conduct fresh auction for the shops with reduced Earnest Money Deposit and lower advance payment of rent.

3.2 Unfruitful expenditure

KANCHEEPURAM, POLLACHI, TAMBARAM, TIRUVANNAMALAI AND VELLORE MUNICIPALITIES

3.2.1 Unfruitful expenditure

Non-functioning of compost yards due to defective plants/location rendering the expenditure of Rs 86.77 lakh unfruitful.

Commissioner of Municipal Administration (CMA) submitted (November 1996) a proposal to the State Government for setting up mechanical compost yards in five[1] Municipalities to achieve:

- Cleanliness and control of environmental pollution in the municipal towns through modern methods of collection, removal and conversion of municipal wastes into quality compost.
- To provide hygienic and scientific method of disposal of solid wastes.
- To derive an inexhaustible store for the maintenance of soil fertility through recycling of urban wastes.

1 Kancheepuram, Pollachi, Tambaram, Tiruvannamalai and Vellore.

➢ To produce 19000 metric tonnes of quality compost annually to benefit 20000 small and marginal farmers in and around the five municipal towns.

The State Government accepted the proposal and accorded (March 1997) sanction for Rs 70.20 lakh. CMA released this amount to the five municipalities for purchase of two mini lorries (for collection of garbage), front-end loader, mechanical siever (for turning around compost), pumpset (for providing adequate water facility in the yard) and construction of masonry platform for segregating recyclable waste for each compost yard.

The expenditure incurred in four of the five municipalities was as under:

(Rupees in lakh)

Sl. No.	Item of expenditure	Kancheepuram		Tambaram		Tiruvannamalai		Vellore	
		Grant	Actual expenditure	Grant	Actual expenditure	Grant	Actual expenditure	Grant	Actual expenditure
1.	Purchase of mini lorry	6.00	4.27	5.50	6.20	6.00	12.20	6.00	4.75
2.	Purchase of front-end loader	5.50	5.98	5.50	14.05	5.50	13.47	5.50	13.68
3.	Purchase of one mechanical siever	0.50	0.50	0.50	0.55	0.50	0.60	0.50	0.50
4.	Construction of OHT with pump room	-	-	-	-	1.00	1.00	-	-
5.	Providing Borewell with pumpset	0.50	0.48	0.50	0.50	-	-	0.50	0.50
6.	Construction of platform	1.00	1.78	-	-	1.00	0.97	1.50	1.50
7.	Construction of store room and watchman room	-	-	0.50	0.50	-	-	0.20	0.20
8.	Barbed wire fencing	0.50	1.27	1.50	1.32	-	-	-	-
	Total	**14.00**	**14.28**	**14.00**	**23.12**	**14.00**	**28.24**	**14.20**	**21.13**

The excess expenditure was met out of municipal funds in all these cases. Thus the project formulation was inadequate as the project budget was insufficient to set up the infrastructure.

A study of the functioning of compost yard in the four municipalities disclosed the following:

(i) Kancheepuram

The production of compost through the machinery installed was 20627 MT during 1999-2000 to 2003-04 (up to October 2003). But the sale was 11.664 MT only. There was lack of demand for mechanical compost from agriculturists and household gardeners. Further, there were no takers even for the free distribution of compost accumulated earlier prior to the production of the mechanical compost.

(ii) Tambaram

Although the equipments were procured, the compost yard was not functioning as it was close to residential locality and school, and the residents

objected. Subsequently in November 2003, the Collector identified an alternative site at Venkata Mangalam and the proposal was pending with the Government as of March 2004.

(iii) Tiruvannamalai

Except the mechanical siever, all the other machineries were being utilised for the removal of solid waste. According to the Commissioner, the siever did not function since installation and his efforts to repair it through the supplier had not materialised and no compost was produced (December 2004). No legal action has been initiated against the supplier.

(iv) Vellore

Only one mini lorry was procured for garbage clearance against the requirement of two as envisaged in the scheme. Compost unit was not functioning as the siever was under repair from the date of installation (August 1998). The defects were rectified and the unit was put to use only from October 2003. Only a small quantity of compost was being produced and distributed to farmers free of cost, though the project envisaged production of 3800 MT of compost per annum. The Municipality did not maintain records of compost production.

Thus, the failure to assess the demand from farmers for compost manure resulted in the non-utilisation/limited utilisation of plant and machinery, rendering the capital expenditure of Rs 86.77 lakh unfruitful. Besides, the objective of providing hygienic and scientific method of disposal of solid wastes from the municipal areas was not achieved.

The matter was referred to Government in March 2004; reply had not been received (December 2004).

SANKARANKOIL MUNICIPALITY

3.2.2 Unfruitful investment

Construction of a new bus stand at an inconvenient location resulted in unfruitful investment of Rs 45.47 lakh and non-accrual of revenue of Rs 1.27 lakh per annum for eight years.

Government sanctioned (September 1989) construction of a new bus stand in Sankarankoil Municipality, Tirunelveli district at a cost of Rs 25 lakh with a loan assistance from the Municipal Urban Development Fund. The Project Management Group of Tamil Nadu Urban Development Project released Rs ten lakh in January 1991 and Rs 15 lakh in January 1993 as loan to the Municipality for construction of the new bus stand. The work, which commenced in 1991-92, was completed in January 1996 at a total cost of

Rs 26.88 lakh. The new bus stand includes facilities like parking bay for 25 buses, six stalls, one post office, one cloak room, one police control room, traffic office and one pay and use toilet.

The Regional Transport Officer, Tirunelveli granted conditional recognition to the new bus stand for a period of three years from August 1995. Auction conducted in March 1995 and April 1996 to lease them out did not elicit any response as public, for reasons analysed subsequently, were not willing to use the new bus stand. As of March 2004, the new bus stand has not been utilised (except for a few days initially) even after eight years of its completion. In the meantime, the entire loan of Rs 25 lakh and interest of Rs 18.59 lakh were repaid by the Municipality or adjusted by Government against State Finance Commission devolution of grants. Thus, non-assessment of the merits of the site for the construction of a new bus stand resulted in an unfruitful investment of Rs 45.47 lakh. Besides, the anticipated revenue of Rs 1.27 lakh per annum did not accrue for the past eight years.

The matter was referred to Government in July 2004; Government in its reply stated (September 2004) that the new bus stand was not safe to the public. Government added that to make the bus stand functional action has been taken to shift the nearby compost yard outside municipal area, to lay an inter link road to Tiruvengadam Road and Kazhugumalai Road through the new bus stand and also to operate another traffic diversion road between Elavangulam Road and Rajapalayam Road and after completion of the above works, the new bus stand would start functioning.

CORPORATION OF CHENNAI

3.2.3 Unproductive expenditure

Expenditure of Rs 33.87 lakh on construction of two community centres proved unproductive due to wrong selection of sites.

(a) Corporation of Chennai had approved the construction of a community centre at Jatkapuram in July 1997 at a cost of Rs 23.67 lakh. The centre, with a plinth area of 3660 sq.ft., was completed in March 1999 at a cost of Rs 23.34 lakh and handed over to the Zonal Office III of the Corporation in November 1999. As per the norms fixed (August 2000), the rent for the community centre was worked out as Rs 1647 per day on the assumption that it would be occupied for a minimum of 40 days in a year. As of December 2003 the centre was not rented out for any function and no revenue was realised despite the concessional rate of rent (25 *per cent*) and furniture hire (50 *per cent*) allowed to employees of the Corporation and Members of Council. Thus expenditure of Rs 23.34 lakh remained unfruitful over the last four years. When this was pointed out, the Zonal Officer did not give any reasons for non-utilisation but stated (December 2004) (i) that the Chennai Police used the community centre free of rent for 'Boys Club' during May 2001 and July 2003 and (ii) that the centre had been handed over to the Police again in September

2004 for ten months for the same purpose and the lease rent was being determined by Public Works Department.

(b) Another community centre was constructed (May 1999) in Zone VII in Avadhana Pappiah Road at a cost of Rs 10.53 lakh in an erstwhile cattle shed utilising Members of Parliament Local Area Development funds. The daily rent was fixed at Rs 575. This centre also remained unutilised since May 1999. The Assistant Revenue Officer, Zone VII attributed this (May 2002) to lack of publicity, presence of dog clinic in the vicinity and the location of centre itself in an erstwhile cattle shed. The Corporation resolved (September 2002) to use it as a permanent stacking yard for dumping the materials removed by its flying squad.

Thus, due to injudicious selection of sites Rs 33.87 lakh incurred on construction of two community centres remained unproductive.

The matter was referred to Government and the Corporation in December 2003. The Government replied (December 2004) that the corporation would be asked to explore the possibility of recovering part of the cost by way of lease from the Police Department in respect of the centre at Jatkapuram.

3.3 Avoidable expenditure

KARUR MUNICIPALITY

3.3.1 Avoidable payment of interest

Karur Municipality failed to analyse the viability of the project before availing the loan from Tamil Nadu Urban Infrastructure Financial Services Ltd., Chennai resulting in avoidable payment of interest of Rs 62.80 lakh.

The Tamil Nadu Urban Infrastructure Financial Services Ltd., Chennai (TNUIFSL) sanctioned a loan of Rs 1.09 crore to Karur Municipality in May 1997 for the construction of shopping complex at old bus stand in Karur on condition that the project be completed on or before 31 March 1999. The loan carried interest at the rate of 16.5 *per cent* per annum and was disbursed to the Municipality in June 1997.

Earlier, in 1992-93, Karur Municipality had availed a loan of Rs 18 lakh under Municipal Urban Development Fund and constructed (1995-96) a shopping-cum-office complex in the same old bus stand. While the 12 shops were leased out, the first and second floors were allotted for housing some offices of the Collectorate. However, the lessees of the shops did not pay rent to the Municipality. Anticipating similar problem in the planned shopping complex and considering the imminent shifting of the offices of the Collectorate on completion of their own building, the Municipality resolved (March 1998) to utilise the loan of Rs 1.09 crore for the expansion of the new bus stand in the same locality.

The Municipality approached TNUIFSL in July 1998 to permit use of the loan amount for expansion of the new bus stand, but there was no response. Meanwhile, on grounds of shortage of funds, the Municipality used (August 1998 to January 2000) the loan amount of Rs 1.09 crore to repay some instalments of another loan.

The Commissioner of Municipal Administration instructed (April 2000) the Municipality to refund the loan amount to TNUIFSL, since the project of construction of shopping complex at old bus stand had not commenced. The Municipality repaid (August 1998 to June 2001) the entire unutilised loan amount of Rs 1.09 crore along with interest of Rs 72.68 lakh.

The matter was referred to Government in March 2004. Government in its reply stated (September 2004) that the Municipality had sought the loan with the good intention of constructing a shopping complex in the old bus stand to increase its earnings. Government's reply is not tenable as at the time of availing the loan of Rs 1.09 crore (May 1997), the Municipality had just completed a shopping-cum-office complex and there was no apparent necessity for a second such complex in the Municipality.

Thus, availing of a loan of Rs 1.09 crore for a second shopping complex when no feasibility study was made to support its necessity resulted in an avoidable interest liability of Rs 62.80 lakh (Rs 72.68 lakh less interest of Rs 9.88 lakh earned on the loan amount in a Savings Bank account).

TIRUCHIRAPPALLI CORPORATION

3.3.2 Payment of excess centage charges

Tiruchirappalli Corporation paid the Tamil Nadu Water Supply and Drainage Board Rs 33.24 lakh for preparation of plan and estimates though the same were prepared by the contractor and paid separately.

The Tiruchirappalli Corporation entrusted (May 1998) the work under 'Tiruchirappalli Water Supply Improvement Scheme' and 'Water Supply Scheme to K. Sathanur Zone' to Tamil Nadu Water Supply and Drainage (TWAD) Board at an estimated cost of Rs 14.23 crore and Rs 2.28 crore respectively.

TWAD Board executes water supply schemes for the local bodies, charging 18.5 *per cent* as centage charges which includes 2.5 *per cent* for preparation of plans and sanction of estimates and 0.5 *per cent* for scrutiny by the Chief Engineer. In the common tender for the above two works (June 1998), the Board included the 'work of preparation of plan and detailed engineering by conducting detailed investigation of the site and evolving the most economical design'.

The work was awarded (January 1999) to the lowest tenderer and running bill payments made to him included 2.5 *per cent* of the contract value towards detailed investigations and engineering. The final bill is to be drawn up after

the preparation of completion report due in March 2005. The Board had incurred works expenditure of Rs 14.36 crore (including Rs 1.06 crore towards interest on loan raised for the two works) on the schemes as of July 2004.

Scrutiny of records by Audit revealed that the Board paid 2.5 *per cent* towards detailed engineering to the contractor. The Board then charged the Corporation its centage charges, including 2.5 *per cent* towards preparation of plans and estimates. Thus the Corporation is being charged 2.5 *per cent* twice[2]. Till July 2004, the Board had charged Rs 2.46 crore as centage charges which included Rs 33.24 lakh for preparation of plans and estimates[3].

Thus, the Corporation had incurred an excess expenditure of Rs 33.24 lakh towards work not done by the Board. When pointed out, the Executive Engineer, Urban Division, TWAD Board, Tiruchirappalli justified the payment on the ground that the plan and design were verified/checked by the Board's engineers. The reply is not tenable as the centage charges of 18.5 *per cent* included 0.5 *per cent* for scrutiny of plans and designs.

The Corporation has to take action to recover the excess and irregular payment made to the Board for the work not done by them.

The matter was referred to Government in November 2004; the reply had not been received (December 2004).

3.4 Idle investment

VRIDHACHALAM MUNICIPALITY

3.4.1 Idle investment

Failure to assess the viability of the project resulted in idle investment of Rs 27 lakh financed by a loan on which interest of Rs 17 lakh was paid up to November 2004.

The Vridhachalam Municipality availed a loan of Rs 27 lakh at 9.75 *per cent* under Integrated Development of Small and Medium Towns Scheme and constructed a Daily Market consisting of 134 shops and a hotel at Kattukudalur road in March 1996.

Seven auctions were conducted up to September 1999 and 80 shops were allotted. However, none of the bidders paid the advance of 25 *per cent* of the bid amount or electricity deposit and the shops remained unoccupied.

In July 2002, the Commissioner of Municipal Administration (CMA) approved the resolution of the Municipal Council cancelling the allotment of the 80 shops and leasing out the 134 shops on daily rental basis ranging from

2 The compounded impact of this double charge resulted in the Corporation paying 2.56 *per cent* extra.

3 The Board had paid Rs 35.87 lakh to the contractor. The balance would get adjusted in subsequent running bills or the final bill.

Rs 11 to Rs 63 per day per shop. Four further auctions till November 2003 resulted in only two shops being taken on lease at Rs 18 per day. The balance 132 shops and the hotel continue to remain vacant from 1996 onwards. The Commissioner, Virudhachalam Municipality reported to CMA (June 2002) that the vacant premises were being misused by anti-social elements.

According to the Municipal Councillors (January 2003), the shops built in the new complex were too small and the vendors may agree to take three or four shops together if the deposit for each shop is fixed at Rs 2000. However, there was no response from the CMA as of March 2004.

Thus, the unviable project resulted in unproductive investment of Rs 27 lakh and avoidable payment of interest of Rs 17 lakh up to November 2004.

The matter was referred to Government in March 2004; reply had not been received (December 2004).

CORPORATION OF CHENNAI

3.4.2 "Bulk Refuse Carrier System" lying idle

Objective of improving transportation of garbage from transfer station to dumping ground was not achieved though Rs 33.22 lakh was spent on procurement of trailers and prime movers.

The Corporation of Chennai (CC) decided to purchase six hydraulic trailers along with two prime movers in order to improve the transportation of garbage from transfer stations to dumping yards by adopting the "Bulk Refuse Carrier system" followed in Brihanmumbai Municipal Corporation in Mumbai. The CC, through a Council's resolution (February 1994), selected VHL (Holdings) Pvt. Ltd., Bangalore for supply of the six hydraulic trailers (cost Rs 25.76 lakh) and also purchase of two prime movers (cost Rs 9.60 lakh) from Tata Engineering and Locomotive Co. Ltd (TELCO).

The Corporation entered into an agreement (March 1994) with VHL (Holdings) Pvt. Ltd., on confirming to make available the trailers for inspection before supply at the rate of one per week starting six weeks from the receipt of advance (70 *per cent*). Among others, this agreement provided for warranty up to 12 months from the date of purchase and for levy of penalty at 5 *per cent* for each month of delay subject to a maximum of 25 *per cent*. However, there was no provision in the agreement regarding replacement of sub-standard/defective parts and for rectification of manufacturing defects.

Advance payment of Rs 18.03 lakh to VHL (Holdings) Pvt. Ltd., was made in May 1994. After protracted correspondence with the suppliers, four trailers were received in September 1995 and two in November 1995 after a delay of over a year. A further payment of Rs 5.59 lakh was made to VHL (Holdings) Pvt. Ltd., in November 1995 towards balance payment for the four trailers supplied. Taking into account transportation and transit insurance a balance of Rs 2.76 lakh is due to be paid to VHL (Holdings) Pvt. Ltd.

The trailers were got registered belatedly in April 1996 but went out of order immediately after putting them to use. Though the supplier attended to certain

modification works required, all but one trailer were out of order till date. While the suppliers attributed the failure to rash handling by drivers, the CC maintained that it was due to design defects.

Though the trailers were out of order/use since January 1997, the CC continued to pay Motor Vehicle tax (MVT) up to March 2001 without claiming refund of the tax as applicable in Tamil Nadu Motor Vehicle Tax Act.

The following observations are made:

- Delay in registration of vehicles led to their not being put to use and consequent expiry of almost 50 *per cent* of the warranty period.

- Despite delay of more than a year in the supply of the trailers, the CC had omitted to levy penalty of Rs 6.44 lakh.

- Though the prime movers were not in use, the CC paid MVT of Rs 1.17 lakh for the period from January 1997 to March 2001, which was infructuous.

The prime movers were not used for the purpose of transferring garbage to dumping yard due to trailers being under repair and are lying idle since January 1997. Thus, the objective of improving the transportation of garbage from transfer stations to dumping grounds was not achieved though Rs 33.22 lakh had been spent on procurement of a "Bulk Refuse Carrier System" comprising six trailers and two prime movers.

The Commissioner of the CC stated (January 2005) that while the two prime movers were being deployed for break-down purposes, two trailers are proposed to be converted into mobile offices and the balance four as mobile toilets.

The matter was referred to Government in December 2004; the reply had not been received.

3.5 Others

CORPORATION OF CHENNAI AND OTHER LOCAL BODIES

3.5.1 Short Levy of Library cess and its non-remittance

Failure of the Corporation of Chennai to levy Library cess at the enhanced rate resulted in short collection of Rs 47.72 crore for the period 1992-2004. Further, Rs 104.41 crore collected towards Library cess was not remitted to their respective District Library Officers.

Short levy of Library cess by Chennai Corporation

Tamil Nadu Public Libraries Act, 1948 envisages collection of Library cess in the form of surcharge on Property tax, by the local bodies (LB) and remittance to the District Library Officer (DLO) of the district concerned.

Following the announcement (6 March 1992) by the Finance Minister in his Budget speech for 1992-93, the rate of Library cess, which was five paise per whole rupee of Property tax, was enhanced by the Government to ten paise in May 1992 with retrospective effect from April 1992.

Commissioner, Corporation of Chennai (CC) continued to collect Library cess at the pre-revised rate of five paise, even after April 1992. The Commissioner, CC stated (September 1997) that the upward revision of the cess could not be given effect to as the Government orders were not received in time and the notification on general revision of Property tax was issued even before the receipt of the orders. The argument of CC is not tenable as (a) increase in Library cess had already been announced by the Finance Minister in his budget speech in March 1992, (b) the increase of the cess could have been advertised in the newspapers or (c) the arrears on account of the Library cess for 1992-93 could have been collected during 1993-94. Even during the next revision of Property tax with effect from February 1998, the CC did not give effect to the revised rate of this cess. The request (September 1997) of the CC to continue with the levy of this cess at five paise for a period of five years was turned down by Government in December 1999. The proposal of CC (May 2000) for enhancing the cess to ten paise from the next revision of Property tax (due in 2003) was again rejected by Government (November 2000).

In June 2001, the CC proposed to collect the cess at the enhanced rate of ten paise in respect of new assessees from the date of approval of Council resolution (May 2001) and in respect of old assessees from the date of next revision of Property tax (2003) so that the CC would not have to incur expenditure on issuing fresh demands to about 4.40 lakh assessees. The Government is yet to take a decision on this proposal.

The short levy due to failure of the Commissioner, CC for giving effect to the revised rate of Library cess from April 1992 to March 2004, worked out to Rs 47.72 crore.

Non-remittance by six Municipal Corporations

Government instructed in July 1997 that LBs should make payment of the Library cess due up to 1996-97 in four annual instalments and if they failed to remit the cess due for a particular year in the same year, to effect its recovery from out of the grants to be released to the LBs. However, Library cess collected up to 1996-97 was neither remitted by the LBs nor adjusted/recovered in full from the grants released to them.

As of March 2004 Rs 104.41 crore collected towards Library cess by LBs remained un-remitted to DLOs concerned as detailed under:

(Rupees in crore)

Corporations	70.98
Municipalities	20.82
Town panchayats	7.44
Village panchayats	5.17
Total	**104.41**

In spite of Public Accounts Committee's recommendation (April 1993) and the Government orders (July 1997) as of March 2004, Rs 104.41 crore remained un-remitted by the above LBs.

The matter was referred to the Government and the Corporations concerned in April 2004; reply had not been received (December 2004).

CORPORATION OF CHENNAI

3.5.2 Maintenance expenditure met out of Calamity Relief Fund in violation of guidelines

Expenditure of Rs 30.92 lakh incurred on regular maintenance works of six roads was incorrectly met from Calamity Relief Fund.

Guidelines for Calamity Relief Fund (CRF) issued by Government of India in November 2000 provide that the fund should be applied for providing immediate relief to the victims of natural calamity and restoration of damaged capital works should ordinarily be met from the normal budgetary heads, except when it is to be incurred as part of providing immediate relief on restoration of drinking water sources, provision of shelters, or restoration of communication links.

The State Government sanctioned (January 2003) Rs 12.12 crore as assistance from CRF for immediate relief operation and restoration of the damages that occurred due to heavy rain/floods in October/ November 2002 in Chennai city, based on a proposal submitted by the Commissioner, Corporation of Chennai (CC). Audit noticed that the proposal included the routine maintenance works pertaining to the six roads, for which Commissioner of Corporation had already prepared an estimate in August 2002 to be met from the budget allotment for 2002-03 under the capital head. Work orders for these works had also been issued in September 2002. As these were regular maintenance works taken up under capital grant, it was not proper to meet out the expenditure on these items (Rs 30.92 lakh) under CRF.

Government justified (January 2005) the booking of expenditure under CRF on the grounds that the works were taken up after the floods though the estimates were prepared earlier. The reply is not tenable since the extent of damage could not have been assessed before and CC had already planned to book this routine maintenance of roads to the capital budget.

3.5.3 Short collection of advertisement tax

Short collection of advertisement tax of Rs 23.76 lakh during 1998-2003 due to application of incorrect rate of tax.

According to Madras City Municipal Corporation Act, 1919 and the by-laws for the Prohibition and Regulation of Advertisements, every person who displays any advertisement to public view is liable to pay a tax at rates determined by the Council with the approval of the Government. No advertisement can be exhibited without the written permission of the Commissioner and a licence has to be obtained for each advertisement and the tax is to be paid before the display of advertisement.

Metropolitan Transport Corporation (MTC) leased out their buses to advertising agencies for putting up advertisement boards inside and outside the

buses. The rate of tax for the advertisement in buses approved by the Council in January 1986 and by Government (December 1986) was Rs 80 per bus per month. However, a perusal of connected records in the Corporation of Chennai (CC) revealed that CC collected the tax for advertisements in buses at rates that were lower than Rs 80 per bus per month resulting in short collection of Rs 23.76 lakh as detailed below:

(Rupees in lakh)

Sl. No.	Name of the Agency	Year	Number of bus months*	Tax to be collected	Tax collected	Tax short collected
1.	Uni Ads Pvt. Ltd	1998-1999	1700	1.36	0.61	0.75
		1999-2000	3502	2.80	1.26	1.54
		2000-2001	14158	11.33	5.10	6.23
2.	Naveen Advertisers	1999-2000	560	0.45	0.20	0.25
		2000-2001	3321	2.66	1.19	1.47
		2001-2002	3782	3.03	1.34	1.69
		2002-2003 (Up to December 2002)	2712	2.17	0.91	1.26
3.	Ishvarya Advertisers	September 2001 to July 2003	1376	1.10	0.50	0.60
4.	Sakthi Media	January 1998 to November 1999	391	0.31	0.06	0.25
5.	Eye View	January 2000 to December 2000	1725	1.38	0.12	1.26
6.	Govardhan Enterprises	January 2000 to June 2003	9983	7.99	0.66	7.33
7.	Th.M. Arul	July 2002 to June 2003	1549	1.24	0.11	1.13
	Total			**35.82**	**12.06**	**23.76**

Note: The loss of revenue between 1986 and 1998 remains to be assessed

The matter was referred to Government and the Corporation in February 2004. Government stated (December 2004) that there was no short collection as tax was levied in accordance with the April 2000 resolution of the Council. The reply is not tenable as the rates prescribed in this resolution had not been approved by the Government.

TAMBARAM MUNICIPALITY

3.5.4 Denial of interest amount in the Provident Fund accounts of subscribers of Tambaram Municipality

Failure of the Municipality to work out the interest due and claim the same from Government for crediting it to Provident Fund accounts resulted in denial of interest benefit to the Provident Fund subscribers for the last 19 years.

Every local body is to maintain a Provident Fund account for the benefit of its officers and staff. The Provident Fund account is to be kept in treasury in an

* Bus months: No. of buses x No. of months in which advertisements were exhibited.

interest bearing deposit. The interest on the amount held in the Provident Fund account is to be calculated annually by the local body. After due verification of the interest claim, Director of Local Fund Audit is to issue sanction orders for the credit of the interest amount to the Provident Fund account, after which the local body submits a bill to the treasury debiting interest head with contra credit to the Provident Fund deposit Account of the local body.

A scrutiny of Provident Fund accounts of Tambaram Municipality revealed that interest for the amounts kept in Provident Fund account of the Municipality had not been worked out since 1985-86. As a result, the individual Provident Fund accounts of staff were not credited with any interest. Advances and withdrawals from Provident Fund accounts for individuals had been made only on the basis of subscription amount available in the Provident Fund accounts of the individuals. Between 1985-86 and 2003-04 final payments of balance in Provident Fund account was made without interest in respect of 256 persons (retirement: 120; death: 65 and transfer: 71).

As on 31 March 2004, Provident Fund accounts maintained by the Commissioner of Tambaram Municipality for 317 staff had a balance of Rs 92.34 lakh. The interest rate for General Provident Fund account varied during the last 19 years (1985-86 to 2003-04) between 12 *per cent* and 8 *per cent*. The interest due to be credited to the Provident Fund account for the period from 1985-86 to 2002-03 as calculated (December 2004) by the Municipality at the instance of Audit worked out to Rs 20.32 lakh. This calculation has to be approved by the Director, Local Fund Audit before the interest is allowed in the account of the subscribers.

Thus, failure of the Municipality to work out the interest due and claim the same from Government for crediting it to the individual Provident Fund accounts of the subscribers for the last 19 years resulted in denial of the interest benefit to the Provident Fund subscribers.

Government stated (December 2004) that the proposal for claiming interest for the period 1985-2003 has already been forwarded to the Director of Local Fund Audit by the Municipality.

KARUR MUNICIPALITY

3.5.5 Non-realisation of revenue

Non-realisation of revenue due to lack of pursuance by Karur Municipality in collecting the full cost of the sold plots and selling of the remaining developed plots.

The Sites and Services Scheme was taken up under the Centrally Sponsored Scheme 'Integrated Development of Small and Medium Towns' (IDSMT) to develop sites in these towns for residential, industrial and commercial plots for disposal to public to increase the growth of such towns. Loans from Government of India were disbursed to State Government and deposited into

Municipal Urban Development Fund (MUDF). The loan was repayable with interest by the Municipality.

Karur, one of the municipalities approved by Government for this scheme, developed 169 residential plots, 57 industrial plots in Kolandaloor and 77 residential plots in Arugampalayam in 1990. The Municipality obtained a loan of Rs 13.87 lakh (Rs 5.37 lakh for Arugampalayam village and Rs 8.50 lakh for Kolandaloor village) for development of the above plots from MUDF with an interest liability of Rs 10.54 lakh (Rs 4.43 lakh for Arugampalayam village and Rs 6.11 lakh for Kolandaloor village) repayable in ten years. An amount of Rs 88.09 lakh was anticipated as revenue from the disposal of the plots. The sites were developed by spending the entire loan amount for providing roads, drainage arrangements, drinking water facilities with overhead tanks and electricity connection.

The Municipal council sold 227 out of the total 303 plots in March and October 1991, both on outright basis as well as on instalment basis, by calling for application from general public and by drawal of lots and realised revenue of Rs 64.84 lakh as of November 2003.

A perusal of the connected records revealed the following:

(a) Though the guidelines issued by the Government in 1990 envisaged that the Municipality would sell all the plots within five years i.e. by 1995, 76 plots (Industrial: 31; Residential: 45) out of 303 plots (25 *per cent*) remained unsold. No action was taken by the Municipality for calling for fresh applications from public for sale of the remaining plots after March 1994. The cost of the 76 unsold plots as fixed in 1990 was Rs 20.08 lakh.

(b) In case of sale of plots through instalments, the Municipality did not follow up on the defaulters. This resulted in accumulation of arrears of Rs 15.76 lakh (November 2003).

The matter was referred to Government in July 2004. Government in its reply (September 2004) stated that the Municipality could not sell the remaining plots as there was no demand. This reply is not tenable because demand for the plots could have been ascertained only after inviting applications. Government, nevertheless, added that action has been taken to sell the land after clearing all the shrubs and fixing upset price.

CORPORATION OF CHENNAI

3.5.6 Non-collection of track rent for laying optic fibre cable from "BSNL"

Delay by the Corporation in raising demand of track rent for laying optic fibre cable resulted in collection of Rs 14.27 lakh from BSNL remaining outstanding.

In terms of guidelines issued in May 2000, the State Government centralised permission for cutting of roads in urban local bodies for installation of optic fibre cables (OFC). The providers of OFC had to pay annual track rent to the respective local bodies at the rates fixed by Revenue Department from time to

time. The rate fixed for Chennai Corporation was Rs 9400 per kilometre per year.

Bharat Sanchar Nigam Limited (BSNL), a public sector undertaking laid OFC in the areas of Chennai Corporation. However, it had not applied for permission of the Government. Instead, it obtained permission from the Corporation of Chennai from time to time following the earlier practice when such permission was being given to Telephone Department.

Despite giving the permission, the Corporation failed to raise demand for the annual track rent of Rs 14.27 lakh due for 83.936 kms of OFC laid during March 2002 up to October 2003. On being pointed out, the Corporation raised the demand on BSNL (February 2004).

The matter was referred to Government in February 2004. Though Government stated (September 2004) that action had been taken to collect the track rent from BSNL, it has still to be realised (December 2004).

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Chennai
The -1 JUN 2005

(SANJEEV SALUJA)
Principal Accountant General (Civil Audit)
Tamil Nadu and Pondicherry

Countersigned

New Delhi
The 15 JUN 2005

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

APPENDICES

Appendix I

(Reference: Paragraph 1.4.1; page 3)

Audit fee due from corporations and municipalities

(Rupees in lakh)

Year	Amount due from		Amount remitted by		Balance due from	
	Corporations	Municipalities	Corporations	Municipalities	Corporations	Municipalities
Up to 1995-96	5.23	25.51	..	23.06	5.23	2.45
1996-1997	27.03	30.52	11.01	25.45	16.02	5.07
1997-1998	55.61	60.20	12.83	36.15	42.78	24.05
1998-1999	60.27	82.72	25.31	46.80	34.96	35.92
1999-2000	58.67	90.37	16.05	35.98	42.62	54.39
2000-2001	47.96	96.35	24.01	37.86	23.95	58.49
2001-2002	8.27	62.27	8.27	14.54	..	47.73
2002-2003	35.19	..	35.19	..	..	..
2003-2004	39.99	..	..	..	39.99	..
Total	**338.22**	**447.94**	**132.67**	**219.84**	**205.55**	**228.10**
	786.16		**352.51**		**433.65**	

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Appendix II

(Reference: Paragraph 1.5.2; page 3)

Devolution of functions

(a) Functions devolved to ULBs

(i) Urban planning including town planning

(ii) Regulation of land use and construction of buildings

(iii) Roads and Bridges

(iv) Water supply for domestic, industrial and commercial purposes

(v) Public health, sanitation, conservancy and solid waste management

(vi) Slum improvement and upgradation

(vii) Urban poverty alleviation

(viii) Provision of urban amenities and facilities such as parks, gardens and playgrounds

(ix) Burials and burial grounds, cremation, cremation grounds and electric crematoriums

(x) Vital statistics including registration of births and deaths

(xi) Public amenities including street lighting, parking lots, bus stops and public conveniences

(xii) Regulation of slaughter houses and tanneries

(b) Functions yet to be devolved to ULBs

(i) Planning for economic and social development

(ii) Fire Services

(iii) Urban forestry, protection of the environment and promotion of ecological aspects

(iv) Safeguarding the interests of weaker sections of Society, including the handicapped and mentally retarded

(v) Promotion of cultural, educational and aesthetic aspects

(vi) Cattle pounds

Appendix III

(Reference: Paragraph 1.7.1; page 4)

Projection of Tax and Non-Tax Revenues for the period 2002-07 by Second State Finance Commission

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Property tax	492.94	651.65	673.88	694.48	714.80	3227.75
Professional tax	82.20	90.92	100.57	111.26	123.08	508.03
Other taxes	10.24	10.76	11.30	11.86	12.45	56.61
Total Tax Revenue	585.38	753.33	785.75	817.60	850.33	3792.39
Non-tax Revenue	327.24	366.62	411.02	461.32	518.30	2084.50
Total Own Revenue	912.62	1119.95	1196.77	1278.92	1368.63	5876.89

Appendix IV

(Reference: Paragraph 1.7.1; page 4)

Details of Projected capital expenditure for 2002-07 for Urban Local Bodies

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	Total
I Municipal Corporations						
Water Supply	22.48	22.48	21.43	21.43	21.42	109.24
Sewerage	53.88	53.88	NIL	NIL	[illegible]	107.76
Roads	61.34	61.34	58.47	58.46	58.[illegible]	298.07
Storm water drains	36.00	36.00	34.31	34.31	34.32	174.94
Street lighting	4.18	4.18	4.18	4.17	4.18	20.88
Solid waste management	13.82	13.82	13.82	13.82	13.83	69.11
Remunerative enterprises(maximum)	19.50	19.50	19.50	19.50	19.50	97.50
Optional and discretionary services (maximum)	9.75	9.75	9.75	9.75	9.75	48.75
Investment in fixed deposits	9.75	9.75	9.75	9.75	9.75	48.75
Total	**230.70**	**230.70**	**171.20**	**171.20**	**171.20**	**975.00**
II Municipalities						
Water Supply	42.00	42.00	42.00	42.00	42.00	210.00
Sewerage	11.20	11.20	11.20	11.20	11.20	56.00
Roads	30.00	30.00	30.00	30.00	30.00	150.00
Storm water drains	14.40	14.40	14.40	14.40	14.40	72.00
Street lighting	7.80	7.80	7.80	7.80	7.80	39.00
Solid waste management	5.20	5.20	5.20	5.20	5.20	26.00
Remunerative enterprises(maximum)	6.46	6.46	6.46	6.46	6.46	32.30
Optional and discretionary services (maximum)	6.46	6.46	6.46	6.46	6.46	32.30
Investment in fixed deposits	6.48	6.48	6.48	6.48	6.48	32.40
Total	**130.00**	**130.00**	**130.00**	**130.00**	**130.00**	**650.00**
III Town Panchayats						
Water Supply	75.00	77.50	81.00	83.50	86.00	403.00
Roads and Bridges	15.00	15.50	16.00	16.50	17.00	80.00
Public Health and Sanitation	1.50	1.55	1.60	1.65	1.70	8.00
Conservancy	3.00	3.10	3.20	3.30	3.40	16.00
Storm water drains	30.00	31.00	32.00	33.00	34.00	160.00

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	Total
III Town Panchayats (concld.)						
Street lighting	3.00	3.10	3.20	3.30	3.40	16.00
Remunerative enterprises and optional/discretionary services	22.50	[illegible]25	24.00	24.75	25.50	120.00
Total	**150.00**	**155.00**	**161.00**	**166.00**	**171.00**	**803.00**
Grand Total	**510.70**	**515.70**	**462.20**	**467.20**	**472.20**	**2428.00**

Appendix V

(Reference: Paragraph 1.7.1; page 4)

Details of Projected Operation and Maintenance expenditure for 2002-07 for Urban Local Bodies

(Rupees in crore)

Year	Municipal Corporations	Municipalities	Town Panchayats	Total
2002-03	286.43	221.51	169.44	[illegible]
2003-04	312.34	249.63	199.43	[illegible]
2004-05	340.15	279.37	225.72	845.2[illegible]
2005-06	367.45	314.26	256.97	938.68
2006-07	393.63	348.48	285.43	1027.54
Total	**1700.00**	**1413.25**	**1136.99**	**4250.24**

(Operation and Maintenance expenditure includes expenditure on General Administration and Taxes, Public Works and Roads, Sanitation and Drainage, Street lighting, Public Health and Conservancy, Town Planning, Education, Water supply, Miscellaneous items and Additional O & M expenditure for new investment)

Appendix VI

(Reference: Paragraph 1.11.2; page 12)

Arrears in completion of audit in respect of ULBs (as of Novembe[illegible]

Year	TOWN PANCHAYATS			MUNICIPALITIES			[illegible]ORATIONS		
	No. of TPs which have compiled the accounts	No. yet to be Certified and audited by DLFA	Reasons for arrears	No. of Municipalities which have compiled the accounts	No. yet to be Certified and audited by DLFA	Reasons for arrears	No. of Corporations which have compiled the accounts	[illegible] to be Cert[illegible]ed and audited by DLFA	Reasons for arrears
2000-01	611	2	Records seized by the Vigilance Department	102	Nil	..	6	Nil	-
2001-02	611	1	Records seized by the Vigilance Department	102	8	Accounts returned for rectification (6) and audit in progress (2)	6	3	Accounts returned for rectifications (2) and audit in progress (1)
2002-03	611	123	Audit under progress (48); to be taken up (75)	102	76	Accounts returned for rectification (32); audit in progress (19), to be taken up (6) and Accounts not received by DLFA (19)	6	6	Audit in progress (5) and Accounts not received by DLFA (1)
2003-04	611	569	Audit under progress (43); to be taken up (120) Accounts to be given to DLFA (406)	102	102	Accounts returned for rectification (15); to be taken up (3) and Accounts not received by DLFA (84)	6	6	Audit in progress (1) and accounts not received by DLFA (5)

DLFA: Director of Local Fund Audit

Appendix VII

(Reference: Paragraph 1.11.3; page 12)

Year-wise details of paragraphs pending settlement as of October 2004

Year of Audit Report	Number of Paragraphs pending in respect of			Total Number of paragraphs pending
	Town Panchayats	Municipalities	Corporations	
Up to 1995-1996	-	41,269	58,785	1,00,054
1996-1997	34,518	11,862	3,733	[illegible]0,113
1997-1998	8,138	12,489	3,965	[illegible]
1998-1999	8,571	10,919	5,092	24,582
1999-2000	10,078	8,325	4,639	23,042
2000-2001	14,043	10,378	5,227	29,648
2001-2002	17,505	13,911	2,266	33,682
2002-2003	8,682	2,050	1,557	12,289
2003-2004	459	..	98	557
Total	**1,01,994**	**1,11,203**	**85,362**	**2,98,559**

Appendix VIII

(Reference: Paragraph 1.12.1; page 13)

Details of PAC reco[illegible]tions pending for want of Action Taken Notes

Year of Audit Report to which it rel[illegible]	Number of recommendations pending settlement in MAWS Department
[illegible]986	11
[illegible]86-1987	2
[illegible]87-1988	5
19[illegible]8-1989	-
1989-1990	-
1990-1991	5
1991-1992	-
1992-1993	83
1993-1994	10
1994-1995	4
1995-1996	7
1996-1997	6
Total	**133**

Appendix IX

(Reference: Paragraph 1.12.2; page 13)

Inspection Reports/Paragraphs on Corporations an[illegible] of[illegible]ipalities issued up to September 2003 and pending sett[illegible] March 2004

Year	Number of Inspection Reports	Number of Pa[illegible]hs
1989-1990	1	3
1990-1991	1	18
1991-1992	2	3
1992-1993	3	20
1993-1994	4	6
1994-1995	-	-
1995-1996	3	4
1996-1997	3	8
1997-1998	5	12
1998-1999	2	97
1999-2000	20	159
2000-2001	21	167
2001-2002	24	167
2002-2003	35	421
2003-2004	10	198
Total	**134**	**1283**

Appendix X

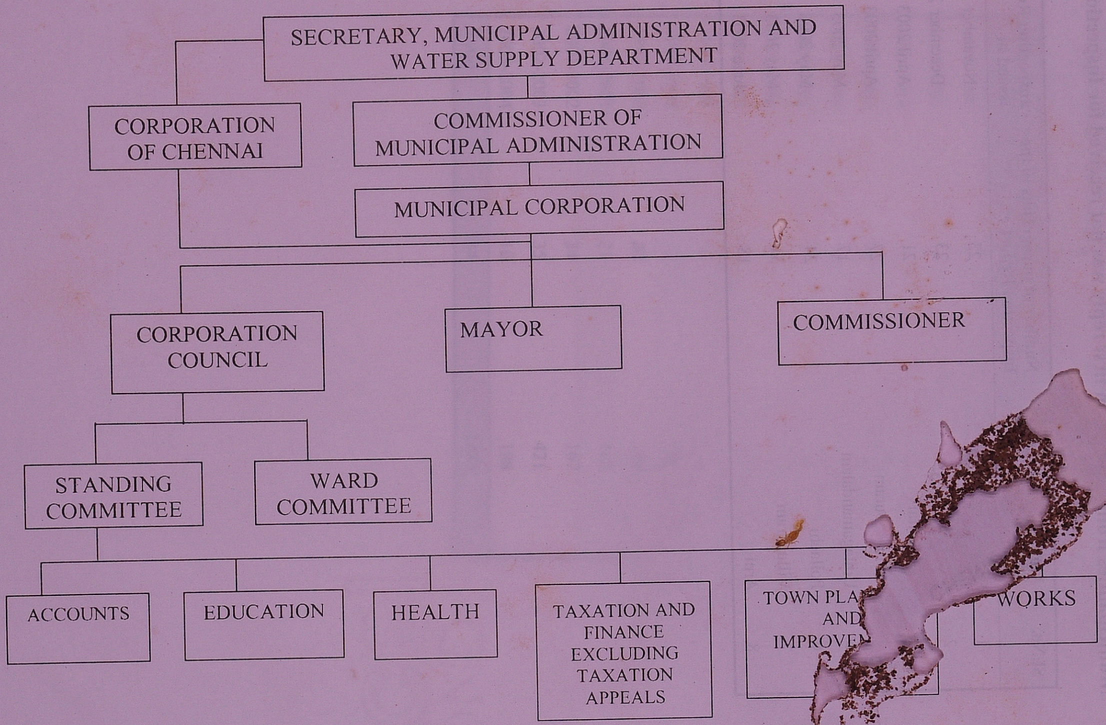
(Reference: Paragraph 1.12.2; page 13)

Municipalities from [illegible]n first reply was not received for Inspection Reports

Sl.No.	Munic[illegible]	Number of paragraphs in the Inspection Report	Inspection Report issued in
1	[illegible]m	23	November 2002
2	[illegible]r	23	December 2002
[illegible]	[illegible]ukottai	21	April 2003
[illegible]	Kanc[illegible]puram	27	April 2003
5	Udhagamandalam	17	May 2003
6	Pollachi	24	May 2003
7	Villupuram	31	May 2003
8	Arni	18	June 2003

Appendix XI
(Reference: paragraph 2.1.6; page 16)

ORGANOGRAM



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